

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4464-02
Bill No.: HB 1308
Subject: Education, Higher; Education, Elementary and Secondary
Type: Original
Date: January 27, 2014

Bill Summary: This proposal expands the Higher Education Academic Scholarship Program (Bright Flight) to include forgivable loans.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
General Revenue	(\$18,075,000)	(\$18,075,000)	(\$18,075,000)
Total Estimated Net Effect on General Revenue Fund	(\$18,075,000)	(\$18,075,000)	(\$18,075,000)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
Higher Education Academic Scholarship Fund*	\$0	\$0	Unknown
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	Unknown

***Offsetting Transfers In and Disbursements of \$19,200,000 per year.**

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 8 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
Total Estimated Net Effect on FTE	0	0	0

☐ Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

☒ Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Elementary and Secondary Education** and the **Office of State Treasurer** assume no fiscal impact to their respective agencies.

Officials from the **Joint Committee on Administrative Rules (JCAR)** stated this proposed legislation is not anticipated to cause a fiscal impact to JCAR beyond its current appropriation.

According to officials from the **Office of Secretary of State (SOS)**, many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS's office is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to Secretary of State's office for Administrative Rules is less than \$2,500. SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, SOS also recognizes that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what their office can sustain with their core budget. Therefore, SOS reserves the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

Oversight assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal with core funding. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process.

Officials from the **Department of Higher Education (DHE)**, provided the following response regarding this proposed legislation:

For FY 2013, DHE paid a total of 6,220 students through the Bright Flight program, constituting payments to the top three percent of test takers. Current projections indicate participation will continue to decline somewhat, leveling off at about 6,000 recipients. Based on current proportions, approximately 4,500 of those recipients (75%) would be renewal students. DHE estimates there are currently 2,300 individuals in the top fourth and fifth percentiles. These individuals have not received payments because, by statute, the top three percent must be fully funded (receive awards of \$3,000) before funding the fourth and fifth percentile students and current appropriations are insufficient to support this award level. However, these individuals meet the definition of an eligible student. It is assumed a similar proportion of these students

ASSUMPTION (continued)

(75% or 1,725) would ultimately be classified as renewal.

It is estimated that the new definition of continuous enrollment will reduce the number of renewal students by approximately 10 percent. This is based on the fact that approximately 10 to 15 percent of Bright Flight recipients require at least 5 years to graduate. It is likely that these 5 year graduates are not accumulating credit hours at the rate required by this new provision. While some of these students may increase the number of hours completed as a result of this requirement, it is assumed that some proportion (10%) will not. At the current award level (\$2,500), this would reduce the cost for the scholarship component of the program by approximately \$1,125,000 ($450 * \$2,500$). Since the top fourth and fifth percentile students are not receiving payments, there would be no related reduction in cost based on this requirement.

Based on this data it is estimated that 7,680 individuals would be eligible for the loan forgiveness component. 5,550 students (6,000 - 450) in the top 3% and 2,130 (2300 - 170) in the 4 and 5%. It is assumed that half of these students would exercise the option for the forgivable loan and would borrow the maximum amount. This would result in a total annual cost for the first three years of operation of \$19,200,000 ($3840 \text{ students} * \$5,000$).

These changes would result in a total increase in program cost of \$18,075,000.

Regarding long-range implications of the proposal, DHE assumes that, while initial administrative costs relating to program implementation and operation would be minimal, once the loan component of the program becomes fully operational (that is recipients have graduated and loans begin to be forgiven or go into repayment), there will be substantial administrative costs for program operation. These costs are impossible to accurately project as DHE has no reliable way to project the number of loans. In addition, there will likely be a difference in the costs required to administer the loans depending on whether they are forgiven or require repayment. Since DHE is unable to determine what proportion will be forgiven or require repayment, they are unable to project these differential costs as well. Costs will include additional DHE staff and system programming in order to allow DHE to service the loans directly and/or the costs related to contracting the loan servicing operations to a third party organization.

Oversight assumes, after discussions with DHE, that a minimal amount of loan repayments may be made in FY 2017. According to DHE, current students have a one year grace period after graduation and, per this proposal, one year to complete employment in Missouri before any payments would be required or penalties assessed. Oversight assumes any offset from loan repayments or penalties to a appropriation request would not occur until FY 2018 which is

ASSUMPTION (continued)

beyond the scope of the fiscal note.

Officials from the **University of Central Missouri** estimate no direct fiscal impact from this proposal, but further estimate this proposal would have only a positive effect on UCM in the form of potentially increased enrollment if this proposal makes more scholarship funds and more loan options available to students. No negative fiscal impact would result from the proposal.

Officials from **Missouri State University** assume this proposal would potentially have a positive fiscal impact, the extent of which cannot be quantified at this time.

Officials from **Missouri Southern State University** state a fiscal impact is indeterminate at this time.

Officials from **Linn State Technical College, Northwest Missouri State University, the University of Missouri System, and Missouri Western State University** assume no fiscal impact on their respective institutions.

Oversight assumes fiscal impact to colleges and universities would be indirect.

Officials from the following colleges and universities: Crowder, East Central Community College, Harris-Stowe, Jefferson College, Kansas City Metro Community College, Lincoln University, Moberly Area Community College, Southeast Missouri State University, State Fair Community College, St. Charles Community College, St. Louis Community College, Three Rivers Community College, and Truman State University did not respond to **Oversight's** request for fiscal impact.

Officials from the following school districts assumed no fiscal impact: **Francis Howell, Johnson County R-7, and Fulton.**

Officials from the following school districts: Blue Springs, Branson, Caruthersville, Charleston R-I, Cole R-I, Columbia, Fair Grove, Harrison R-IX, Independence, Jefferson City, Kansas City, Kirksville, Kirbyville R-V, Lee's Summit, Malden R-I, Malta Bend, Mexico, Monroe City R-I, Nixa, Parkway, Pattonville, Raymore-Peculiar R-III, Raytown, Riverview Gardens, Sedalia, Sikeston, Silex, Special School District of St. Louis County, Spickard R-II, Springfield, St Joseph, St Louis, St. Charles, Sullivan, Warren County R-III, and Waynesville did not respond to **Oversight's** request for fiscal impact.

<u>FISCAL IMPACT - State Government</u>	FY 2015 (10 Mo.)	FY 2016	FY 2017
GENERAL REVENUE			
<u>Savings</u> - Department of Higher Education (DHE) - Reduction of renewal students for Bright Flight program (§175.250.2 (12))	\$1,125,000	\$1,125,000	\$1,125,000
<u>Transfer Out</u> - Department of Higher Education - Loan forgiveness program (§175.250.11)	<u>(\$19,200,000)</u>	<u>(\$19,200,000)</u>	<u>(\$19,200,000)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE	<u>(\$18,075,000)</u>	<u>(\$18,075,000)</u>	<u>(\$18,075,000)</u>
HIGHER EDUCATION ACADEMIC SCHOLARSHIP TRUST FUND			
<u>Transfer In</u> - General Revenue - Funding for loan forgiveness program (§175.250.11)	\$19,200,000	\$19,200,000	\$19,200,000
<u>Income</u> - Loan repayments and penalties (§173.250.16)	\$0	\$0	Unknown
<u>Disbursements</u> - Student loans	<u>(\$19,200,000)</u>	<u>(\$19,200,000)</u>	<u>(\$19,200,000)</u>
ESTIMATED NET EFFECT ON HIGHER EDUCATION ACADEMIC SCHOLARSHIP TRUST FUND	<u>\$0</u>	<u>\$0</u>	<u>Unknown</u>
<u>FISCAL IMPACT - Local Government</u>	FY 2015 (10 Mo.)	FY 2016	FY 2017
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

FISCAL DESCRIPTION

This proposed legislation would change three aspects of the current Bright Flight program.

§173.250.2 (6) (d) - Requires that, in order to be eligible, 2017 high school seniors and all future graduating classes would be required to meet additional eligibility requirements. Those additional eligibility requirements would be to achieve a passing score on the Algebra I and English I end-of-course exams or meet ACT/COMPASS test scores established by the Coordinating Board for Higher Education.

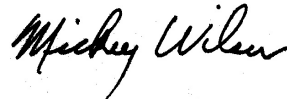
§173.250.2 (12) - Establishes a new definition of continuous enrollment. Currently a student must simply be paid during one semester of an academic year to be considered continuously enrolled. Under the revised provisions, a student would need to complete a certain number of credit hours (24 in the first year; 30 in each subsequent year) to be considered continuously enrolled.

§173.250.11 & 12 -Adds a forgivable loan component to the program for any Bright Flight eligible student. The maximum loan would be \$5,000 annually or \$20,000 in total. Each annual loan would be forgiven on a year by year basis based on the recipient being employed in Missouri.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Higher Education
Joint Committee on Administrative Rules
Office of Secretary of State
 Administrative Rules Division
Office of State Treasurer
Department of Elementary and Secondary Education
Colleges and Universities
 University of Missouri System
 University of Central Missouri
 Linn State Technical College
 Missouri State University
 Missouri Southern State University
 Missouri Western State University
 Northwest Missouri State University
School Districts
 Fulton
 Francis Howell
 Johnson County R-7



Mickey Wilson, CPA
Director
January 27, 2014

Ross Strobe
Assistant Director
January 27, 2014